

Message Text

LIMITED OFFICIAL USE

PAGE 01 BELGRA 03933 01 OF 03 010700Z

21

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

XMB-02 /105 W

----- 033435

R 301445Z JUL 75

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 3666

INFO AMCONSUL ZAGREB

USMISSION OECD PARIS

USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 1 OF 3 BELGRADE 3933

E.O. 11652: NA

TAGS: ECON, EFIN, ETRD, EGEN, YO

SUBJ: YUGOSLAV ECONOMIC TREANDS SIX MONTH REVIEW

SUMMARY: FOLLOWING IS OVERVIEW OF YUGOSLAV ECONOMIC TRENDS AND POLICIES IN FIRST HALF 1975, DRAWING ON CONVERSATIONS WITH YUGOSLAV ECONOMIC OFFICIALS, PUBLISHED INTERVIEWS AND LATEST STATISTICS. ON EXTERNAL SIDE THE GROWING TRADE DEFICIT MAINLY DUE TO VERY WEAK EXPORTS TO WESTERN EUROPE HAS CAUSED YUGOSLAVIA TO ADOPT IMPORT CONTROLS IN ORDER PROTECT EXTERNAL LIQUIDITY. ON DOMESTIC SIDE, YUGOSLAVIA IS SLOWING DOWN RATE OF GROWTH OF INDUSTRIAL PRODUCTION IN ORDER EASE PRESSURE ON PRICES AND IMPORTS. CONTROL OF EXCESSIVE INVESTMENT SPENDING, WHICH ROSE 50 PERCENT IN NOMINAL TERMS IN FIRST HALF 1975, IS CORNERSTONE OF YUGOSLAV POLICY TO CURB INFLATIONARY DEMAND PRESSURES AND TO PROTECT ECONOMY'S INTERNAL LIQUIDITY. THE EMPLOYMENT PICTURE IS MIXED WITH STRONG EMPLOYMENT GROWTH OF 5 PERCENT

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BELGRA 03933 01 OF 03 010700Z

ACCOMPANIED BY INCREASING NUMBER OF UNEMPLOYED. EMPLOYMENT

SITUATION PROBABLY IS MAJOR REASON WHY YUGOSLAVIA WILL NOT ADOPT DEFLATIONARY POLICIES TO DEAL WITH BALANCE OF PAYMENTS AND INFLATION PROBLEMS. IN AGRICULTURAL SECTOR, WHEAT HARVEST IN FORECAST AT ABOUT 4.8 MILLION TONS, 23 PERCENT LESS THAN IN 1974 BUT REPORTEDLY ENOUGH TO MEET DOMESTIC NEEDS. END SUMMARY.

1. FOREIGN TRADE HIGHLIGHTS: YUGOSLAVIA'S 6-MONTH FOREIGN TRADE DEFICIT OF ABOUT \$1.90 BILLION IS SOME 20 PERCENT LARGER THAN THE NEARLY \$1.58 DEFFICIT FOR SAME PERIOD 1974. STATISTICS SHOW GLOBAL SEVEN PERCENT INCREASE IN YUGOSLAV EXPORTS (VALUE) AND GLOBAL 12 PERCENT RISE IN IMPORTS (VALUE). UNANIMOUS AGREEMENT EXISTS AMONG YUGOSLAV ECONOMIC LEADERSHIP THAT PRIMARY WEAKNESS OF 1975 FOREIGN TRADE PERFORMANCE IS DECLINE OF YUGOSLAV EXPORTS TO WESTERN EUROPT. (ALTHOUGH DETAILED DATA FOR 6 MONTHS IS NOT YET AVAILABLE, FIGURES FOR 5-MONTH PERIOD CLEARLY CONFIRM THIS VIEW. YUGOSLAV TRADE DEFICIT WITH WESTERN EUROPE FOR JAN-MAY PERIOD IN 1975 GREW 57 PERCENT MEASURED AGAINST SAME 1974 PERIOD, FROM \$773 MILLION TO \$1.217 BILLION. DEFICIT WITH WESTERN EUROPE ACCOUNTED FOR 76 PERCENT OF TOTAL FOREIGN TRADE DEFICIT THROUGH 5 MONTHS 1975, VERSUS 60 PERCENT FOR 1974.L COMPARING 1975 WITH 1974, EXPORTS FOR 6 MONTHS TO DEVELOPED COUNTRIES DECLINED 20 PERCENT, WHILE IMPORTS FROM DEVELOPED COUNTRIES ROSE 16 PERCENT.

2. YUGOSLAV OFFICIALS CONTINUE TO EXPRESS STRONG CONCERN OVER DETERIORATING TRADE BALANCE WITH WESTERN EUROPEAN COUNTRIES, PRIMARILY WEST GERMANY, ITALY AND AUSTRIA. YUGOSLAV OFFICIALS INSIST TRADE DEFICITS IN WHICH IMPORTS ARE THREE TO FOUR TIMES GREATER THAN EXPORTS WILL NOT BE ALLOWED TO CONTINUE. EEC BAN ON BEEF IMPORTS IS REGULARLY DENOUNCED AS EXAMPLE OF HARMFUL TRADE BARRIER THAT HAS COST YUGOSLAVIA ABOUT \$200 MILLION IN FOREIGN EXCHANGE EARNINGS AND DISRUPTED DOMESTIC LIVESTOCK INDUSTRY.

3. TO CONTROL DETERIORATING TRADE ALANCE YUGOSLAVIA IS REQUIRING IMPORT LICENSING FOR 257 BTN CATEGORIES OF PRODUCTS, AND THE OFFICIAL GAZETTE OF MAY 31, 1975, PUBLISHED A DECISION "LINKING IMPORTS TO EXPORTS." YUGOSLAV LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BELGRA 03933 01 OF 03 010700Z

ECONOMIC AUTHORITIES HAVE TOLD EMBASSY THAT SUCH LINKAGE IS MAJOR POLICY ON TRADE FRONT BUT HAVE NOT SAID EXPLICITLY AND PUBLICLY HOW POLICY WILL BE IMPLEMENTED. THERE ARE REPORTS THAT FOREIGN TRADE SECRETARIAT WILL REQUIRE ENTERPRISES TO DEMONSTRATE CERTAIN PERCENTAGE OF EXPORT EARNINGS BEFORE ENTERPRISES WILL BE ISSUED IMPORT LICENSES. FOREIGN TRADE SECRETARY LUDVIGER EMPHASIZED IN INTERVIEW THAT YUGOSLAVIA IS NOT ADOPTING "IMPORT BANS" BUT IS PLACING

IMPORTS UNDER TEMPORARY CONTROL UNTIL DECEMBER 31, 1975, IN ORDER TO PROTECT COUNTRY'S EXTERNAL LIQUIDITY AND BALANCE OF PAYMENTS POSITION. HE SAID YUGOSLAVIA'S POLICY IS TEMPORARY AND NON-DISCRIMINATORY AND IS ESSENTIAL TO PROTECT COUNTRY'S CREDIT WORTHINESS.

4. OTHER MOVES TO STIMULATE EXPORTS INCLUDE: (A) PLAN TO TRANSFORM THE YUGOSLAV CREDIT AND INSURANCE FUND INTO AN EXPORT BANK, ALTHOUGH MAJOR ORIENTATION OF SUCH BANK MIGHT BE TOWARD LDC'S RATHER THAN WESTERN EUROPEAN MARKETS WHERE YUGOSLAVIA'S CURRENT PROBLEMS LIE; (B) EXPANSION OF EXPORT CREDIT FACILITIES TO PERMIT MORE CREDITS FOR INTER-MEDIATE STAGES OF EXPORT PRODUCTION; (C) POSSIBLE REORGANIZATION OF YUGOSLAV FOREIGN TRADE FIRMS WHICH ARE UNDER ATTACK FOR IMPORT ORIENTATION AND ALLEGED INEFFICIENCIES; (D) POSSIBLE EFFORT TO REDUCE DOMESTIC PRICES OF CERTAIN PRODUCTS--FOREIGN TRADE SECRETARY LUDVIGER IN PUBLISHED INTERVIEW STRESSED THAT DOMESTIC PRICES FOR FURNITURE, PRODUCTS OF CHEMICAL AND NON-FERROUS METAL INDUSTRIES THAT ARE HIGHER THAN WORLD PRICES FOR SAME PRODUCTS ARE IMPORTANT CAUSE OF YUGOSLAVIA'S DISAPPOINTING EXPORT PERFORMANCE.

5. IN CONTRAST TO WESTERN EUROPE, YUGOSLAVIA'S FOREIGN TRADE PERFORMANCE WITH EASTERN EUROPE AND LDC'S HAS BEEN EXCELLENT. YUGOSLAVIA'S EXPORT TO EASTERN EUROPEAN COUNTRIES INCREASED ABOUT 25 PERCENT IN THE FIRST HALF OF 1975 HELPING PAY FOR IMPORTANT IMPORTS OF RAW MATERIALS AND OIL. TRADE HAS INCREASED WITH EVERY EASTERN EUROPEAN COUNTRY EXCEPT ROMANIA AND YUGOSLAVIA HAS SIX MONTH POSITIVE TRADE BALANCE WITH USSR. YUGOSLAV EXPORTS TO LDC'S ROSE OVER 70 PERCENT IN FIRST HALF 1975 ALTHOUGH FROM A SMALL BASE. YUGOSLAVIA IS CONTINUING INTENSIVE EFFORTS TO ACCELERATE COOPERATION WITH LDC'S THAT TO DATE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BELGRA 03933 01 OF 03 010700Z

HAS BEEN MAINLY CONCENTRATED IN MIDDLE EAST AND AFRICA. FEC MEMBER STOJAN ANDOV RECENTLY RETURNED FROM VISIT TO SEVERAL LATIN AMERICAN COUNTRIES WITH WHICH YUGOSLAVIA INTENDS PROMOTE GREATER TRADE. YUGOSLAVS ARE PLEASED WITH SUCCESS IN EXPANSION ECONOMIC RELATIONS WITH LDC'S AND IN PARTICULAR REGARD CONSTRUCTION CONTRACTS IN LDC'S AS PROMISING SOURCE OF INVISIBLE EARNINGS IN NEXT FIVE YEARS.

6. SENIOR YUGOSLAV OFFICIALS HAVE SPARED NO OPPORTUNITY TO TELL EMBASSY THEY WANT GREATLY EXPANDED ECONOMIC RELATIONS WITH U.S., ESPECIALLY IN AREA OF JOINT VENTURES INVOLVING U.S. INVESTMENTS IN YUGOSLAV ECONOMY. THESE DESIRED NOT PRIMARILY BECAUSE OF CAPITAL THEY BRING IN, BUT BECAUSE THEY ARE IMPORTANT AVENUES OF TECHNOLOGICAL TRANSFER NEEDED TO MODERNIZE YUGOSLAV ECONOMY AND MAKE IT COMPETITIVE IN

WORLD MARKETS. IN ADDITION TO WORKING ON LONG-AWAITED
MODIFICATION OF JOINT VENTURE LEGISLATION TO EASE RESTRIC-
TIONS ON PROFIT REPATRIATION, SENIOR YUGOSLAV OFFICIALS
HAVE INDICATED YUGOSLAVIA IS CONSIDERING PERMITTING THE
OPENING OF REPRESENTATIVE OFFICES BY U.S. BANKS AND
FIRMS IN ORDER STIMULATE GREATER BUSINESS INTEREST IN YUGOSLAVIA.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BELGRA 03933 02 OF 03 011106Z

11
ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

XMB-02 /105 W
----- 036149

R 301445Z JUL 75
FM AMEMBASSY BELGRADE
TO SECSTATE WASHDC 3667
INFO AMCONSUL ZAGREB
USMISSION OECD PARIS
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 2 OF 3 BELGRADE 3933

7. PROSPECTS ARE GOOD FOR INCREASED INVISIBLE EARNINGS
FROM TRADITIONAL SOURCES OF TOURISM AND WORKERS' REMIT-
TANCES; ALTHOUGH INVISIBLES WILL FALL FAR SHORT OF COVERING
TRADE DEFICIT. YUGOSLAV COASTAL TOURIST SEASON SO FAR
LOOKS SUCCESSFUL WITH NUMBER OF FOREIGN VISITORS IN JUNEN
AND EARLY JULY EXCEEDING LAST YEAR'S LEVEL.NATIONAL BANK
TOLD EMBASSY IT PROJECTS 11 PERCENT RISE IN WORKERS'
REMITTANCES REFLECTING HIGHER PER CAPITA SAVING AND
INNOVATIVE YUGOSLAV BANKING PROGRAMS TO ATTRACT YUGOSLAV
WORKERS' SAVINGS OUT OF GERMAN BANKS AND INTO YUGOSLAV
BANKING SYSTEM..

8. DESPITE LARGE TRADE DEFICIT, YUGOSLAV OFFICIALS EXPRESS

CAUTIOUS OPTIMISM ABOUT ABILITY TO FINANCE CURRENT ACCOUNT DEFICIT WHICH NOW PROJECTED AT \$1.2 BILLION UP FROM \$900 MILLION ESTIMATED EARLIER IN THE YEAR. WHILE YUGOSLAVS EXPRESS CONCERN OVER APPARENT HESITANCY OF SOME WESTERN BANKS TO LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BELGRA 03933 02 OF 03 011106Z

UNDERTAKE NEW LENDING IN YUGOSLAVIA THEY SEEM CONFIDENT THAT THIS WILL NOT CREATE DIFFICULTIES IN FINANCING BOP DEFICIT IN 1975; CITING SEVERAL CREDIT SOURCES THEY SAY WILL BE SUFFICIENT TO COVER DEFICIT WITHOUT DRAWING RESERVES BELOW TWO MONTHS OF IMPORTS OR INCREASING DEBT SERVICE BURDEN. (WE HAVE BEEN TOLD THAT MAINTENANCE OF RESERVES EQUAL TO TWO MONTHS' IMPORTS AND RESTRICTING OVERALL DEBT SERVICE RATIO TO NOT OVER 16 PERCENT ARE STRICT PARAMETERS OF YUGOSLAV ECONOMIC POLICY.)

A. CREDITS FROM OIL PRODUCERS. YUGOSLAVIA HAS RECEIVED IRAQI CREDIT FOR REPORTED 4.5 MILLION TONS OF OIL (2 YEAR GRACE PERIOD AND 7 YEAR REPAYMENT) AND HIGH YUGOSLAV SOURCES SAY SIMILAR CREDIT WILL BE CONCLUDED FOR 1976. DEVELOPMENT CREDITS FROM OIL PRODUCING COUNTRIES FOR YUGOSLAV OIL PIPELINE AND OTHER MAJOR PROJECTS ARE BEING NEGOTIATED. NEW FINANCIAL CREDIT FROM KUWAIT WILL BE FORTHCOMING IN SECOND HALF OF 1975 BUT YUGOSLAV OFFICIALS DECLINED TO SPECULATE ON AMOUNT, LEAVING IMPRESSION IT WOULD BE SIZEABLE IF NEEDED.

B. INTERNATIONAL FINANCIAL INSTITUTIONS. YUGOSLAVIA PLANS DRAW FULLY ON IMF OIL FACILITY AND ANTICIPATES FURTHER SIZEABLE WORLD BANK LENDING.

C. WESTERN D-MARK CREDIT NEGOTIATED IN 1974 WILL BE DRAWN DOWN BY ABOUT 240 MILLION D-MARKS.

D. YUGOSLAVIA PLANS APPEAR ON INTERNATIONAL CAPITAL MARKET WITH \$30-50 MILLION BOND ISSUE. IF SUCCESSFUL, NATIONAL BANK SAYS FURTHER ISSUES WILL BE FORTHCOMING IN EUROPE, U.S., AND PERHAPS MIDDLE EAST.

9. ASSUMING YUGOSLAV PROJECTS ARE REASONABLY ACCURATE, EMBASSY ESTIMATE YUGOSLAV 1975 FINANCIAL REQUIREMENTS NECESSARY TO COVER CURRENT ACCOUNT DEFICIT AND MEET DEBT SERVICE OBLIGATIONS AT \$2.2 BILLION.

10 SENIOR YUGOSLAV OFFICIALS HAVE STRESSED INTENTION TO MORE CLOSELY CONTROL NEW FOREIGN BORROWING BY COMMERCIAL BANKS AND ENTERPRISES IN ORDER LIMIT NEW FOREIGN INDEBTEDNESS LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BELGRA 03933 02 OF 03 011106Z

IN PERIOD WHEN BALANCE OF PAYMENTS IS LESS THAN ROBUST. NEW FOREIGN CREDITS SHOULD BE TAKEN ONLH FOR INVESTMENTS IN HIGH PRIORITY SECTORS. U.S. BANKERS ARE BEING ENCOURAGED BY SOME YUGOSLAV OFFICIALS TO CHANNEL THEIR LENDING INTO PRIORITY SECTORS AND TO ASK YUGOSLAV ENTERPRISES AND BANKS SUBMITTING LOAN APPLICATIONS HOW THEIR PLANS FIT INTO YUGOSLAVIA'S DEVELOPMENT PRIORITIES.

1. INVESTMENT ISSUES: YUGOSLAVS HAVE ADOPTED OVERALL POLICY OF "EEMAND MANAGEMENT" TO STABILIZE ECONOMY, FOCUSING ON CONTROLLING EXCESSIVE INVESTMENT SPENDING AND REJECTING DEFLATION AS A POLICY ALTERNATIVE BECAUSE OF POLITICAL/SOCIAL RISKS OF SLOW GROWTH (ESPECIALLY IN EMPLOYMENT AREA). DOMESTIC ECONOMIC PERFORMANCE IS CHARACTERIZED BY HIGH BUT DECELERATING GROWTH OF INDUSTRIAL PRODUCTION (7.7 PERCENT FOR 6 MONTHS) ACCOMPANIED BY STRONG 5 PERCENT RISE IN EMPLOYMENT. BUT OVERALL INVESTMENT SPENDING ROSE 50 PERCENT IN NOMINAL TERMS IN FIRST 6 MONTHS. THIS EXCEEDED PLANNED GROWTH OF 8 PERCENT IN REAL TERMS (ABOUT 36 PERCENT NOMINAL) AND IS JUDGED TO BE PRIMARY CAUSE OF BOTH HIGH RATE OF INFLATION (CURRENTLY ANNUALIZING AT 25 PERCENT) AND INCREASE IN DOMESTIC ILLIQUIDITY. PLANNED INVESTMENT ENVISAGED 12 PERCENT REAL GROWTH IN INVESTMENT IN ECONOMY, WITH NO INCREASE IN NON-ECONOMIC SECTORS. HOWEVER, INVESTMENT SPENDING IN BOTH AREAS HAS BEEN EXCESSIVE. YUGOSLAV OFFICIALS BELIEVE UNCOVERED INVESTMENTS--I.E., PROJECTS DELAYED OR INCOMPLETE DUE TO INSUFFICIENT FINANCING--ARE BOTTLENECK TO DEVELOPMENT GOALS (ESPECIALLY IN ENERGY SECTOR) AND ARE ADVERSELY AFFECTING ECONOMY'S LIQUIDITY.

12. INVESTMENT CONTROLS: CONSEQUENTLY YUGOSLAVS ARE PUTTING TOGETHER INVESTMENT PROGRAM TO CHOK OFF NON-ECONOMIC SECTOR INVESTMENT, END UNCOVERED INVESTMENTS, AND CHANNEL ECONOMIC SECTOR INVESTMENT INTO PRIORITY AREAS. THERE IS NOW REQUIREMENT FOR PRIOR REGISTRATION OF INTENDED CAPITAL INVESTMENT WITH REPUBLIC OR FEDERAL CHAMBERS OF ECONOMY. CHAMBERS OF ECONOMY EVALUATE PROPOSED PROJECTS AND ADVISE ENTERPRISES AND BANKS OF THEIR FEASIBILITY. BEYOND ADVICE AND MORAL SUASION, ECONOMIC CHAMBERS HAVE NO DIRECT AUTHORITY TO PREVENT INVESTMENT PROJECTS. MORE

LIMITED OFFICIAL USE

PAGE 04 BELGRA 03933 02 OF 03 011106Z

RECENTLY, YUGOSLAV ASSEMBLY PASSED LAW TIGHTENING LEGAL AND ACCOUNTING PROCEDURES FOR FINANCING CAPITAL INVESTMENT

AND ESTABLISHING CRIMINAL PENALTY FOR ENTERPRISE DIRECTORS WHO MAKE UNCOVERED INVESTMENTS. CURRENTLY BEING DEBATED IN ASSEMBLY IS LAW TO REQUIRE 50 PERCENT DEPOSIT ON NON-ECONOMIC SECTOR INVESTMENT, BUT THIS IS BEING RESISTED BY SLOVENIA AND OUTCOME IS UNCERTAIN.

13. STABILIZATION PROGRAM: YUGOSLAV POLICY MAKERS APPEAR MORE SERIOUS THAN PREVIOUSLY IN THEIR EFFORTS TO PUT TOGETHER EFFECTIVE STABILIZATION PROGRAM. REPUBLICS AND PROVINCES HAVE BEEN ASKED TO DRAW UP PLANS TO RESTRICT REVENUE COLLECTION AND RETURN EXCESS TO THE ECONOMY; SINCE REVENUES OF SOCIAL/POLITICAL COMMUNITIES ARE RISING IN EXCESS OF AGREED-UPON LEVELS, WHICH WERE SET AT ABOUT 20-25 PERCENT BELOW GNP GROWTH LEVELS.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BELGRA 03933 03 OF 03 050022Z

64/11

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 FEA-01 AGR-05 CEA-01 CIAE-00

COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07 INT-05 L-03

LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

XMB-02 /105 W

----- 075953

R 301445Z JUL 75

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC 3668

INFO AMCONSUL ZAGREB

USMISSION OECD PARIS

USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 3 OF 3 BELGRADE 3933

C O R R E C T E D C O P Y (MRN CORRECTION 3933 VICE 3993)

14. INDUSTRIAL PRODUCTION GREW 11 PERCENT IN FIRST TWO

MONTHS IN 1975 BUT RATE OF GROWTH HAS DECELERATED TO 7.7 PERCENT AFTER SIX MONTHS, REFLECTING EFFECTS OF DAMPENED CONSUMER DEMAND CAUSED BY RESTRICTIVE CONSUMER CREDIT POLICIES. STRUCTURE OF INDUSTRIAL PRODUCTION SHOWS CONSIDERABLE VARIANCE BETWEEN PERFORMANCE OF CONSUMER GOODS INDUSTRIES AND CAPITAL GOODS INDUSTRIES. BESET BY SLACKENED CONSUMER DEMAND, SOME INDUSTRIES (FURNITURE AND ELECTRIC APPLIANCES) HAVE HIGH INVENTORIES, SMALL ORDERS, AND MAY HAVE TO TRIM PRODUCTION GOALS. THEY ARE PRESSURING AUTHORITIES TO ADOPT LESS RESTRICTIVE CREDIT PROGRAMS. ON OTHER HAND, BOOMING CAPITAL GOODS INDUSTRY IS WORKING AT HIGH CAPACITY WITH ORDERS 2-3 MONTHS IN ADVANCE.. IN ORDER TO CINTINUE TO MODERATE GROWTH OF INDUSTRIAL PRODUCTION THEREBY RELEIVING PRESSURE ON PRICES AND IMPORTS, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BELGRA 03933 03 OF 03 050022Z

YUGOSLAV AUTHORITIES INTEND CONTROL MORE EFFECTIVELY LEVEL AND STRUCTURE OF INVESTMENT SPENDING.

15. WITH CONSUMER CREDIT ALREADY EFFECTIVELY RESTRICTED AND ACTION ON CONTROL OF INVESTMENT SPENDING PARTIALLY COMPLETED, THE REPUBLICS AND PROVINCES ARE WORKING ON PROGRAM TO LIMIT REVENUE GROWTH ACCRUING TO SOCIAL/POLITICAL COMMUNITIES. THIS REVENUE, WHICH RISES IN INFLATIONARY ENVIRONMENT, HAS INCREASED BY ABOUT 40 PERCENT IN 1975 DESPITE SOCIAL AGREEMENTS TO KEEP IT ABOUT 25 PERCENT BELOW NOMINAL INCREASE IN GNP. THUS FAR ONLY VOJVODINA HAS ADOPTED METHOD TO RESTRAIN REVENUE GROWTH BUT WE TOLD BY SENIOR OFFICIALS THAT THIS IS NOW PRIORITY FOR ALL REPUBLICS AND PROVINCES.

16. RETAIL PRICES INCREASED ABOUT 12 PERCENT IN FIRST HALF 1975 AND THE COST OF LIVING ROSE ABOUT 13.8 PERCENT. WHILE THERE IS WIDESPREAD GRUMBLING ABOUT HIGH PRICES, EMBASSY HAS NOT DETECTED RESULTING SOCIAL OR POLITICAL TENSIONS AND CURRENTLY YUGOSLAVS MORE CONCERNED OVER SUMMER VACATION PLANS. HTERE ARE SOME INDICATIONS THAT REAL WAGES MAY NOT BE KEEPING PACE WITH INFLATION, HOWEVER, AND MIKA SPILJAK, PRESIDENT OF YUGOSLAV FEDERATION OF TRADE UNIONS, RECENTLY CLAIMED THERE IS ALREADY DIFFICULTY WITH PAYMENT OF PERSONAL INCOME IN SOME ENTERPRISES.

17. EMPLOYMENT INCREADED 5 PERCENT IN FIRST SIX MONTHS EXCEEDING PLANNED GROWTH OF 3 PERCENT, BUT THE NUMBER OF UNEMPLOYED ROSE ALSO AND NOW NUMBER 530,000 AS COMPARED TO 444,000 IN JULY 1974. VERY FEW OF YUGOSLAVIA'S UNEMPLOYED ARE INDIVIDUALS WHO HAVE LOST A JOB--MOST ARE NEW ENTRANTS TO THE LABOR FORCE, EITHER FROM EDUCATIONAL SYSTEM OR RURAL-URBAN MIGRATION. APPARENTLY FEWER WORDKERS FROM ABROAD ARE RETURNING THAN HAD BEEN EXPECTED, ONLY 5,000 RETURNING WORKERS HAVE REGISTERED WITH YUGOSLAV LABOR EXCHANGE OFFICES

FOR EMPLOYMENT ASSISTANCE. LABOR PRODUCTIVITY ROSE ONLY 2.5 PERCENT IN FIRST HALF 1975 AND LOW PRODUCTIVITY IS SUBJECT OF SERIOUS CONCERN AMONG ECONOMISTS HERE. SNEIOR YUGOSLAV ECONOMIC OFFICIALS HAVE MADE IT CLEAR TO EMBASSY THAT EMPLOYMENT SITUATION IS MAJOR REASON WHY DEFLATIONARY POLICIES WILL NOT BE ADOPTED TO DEAL WITH INFLATION AND BALANCE OF PAYMENTS, WITH ONE WELL-PLACED SOURCE STATING LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BELGRA 03933 03 OF 03 050022Z

6 PERCENT ANNUAL GROWTH OF GNP IS LOWEST GROWTH COMPATIBLE WITH COUNTRY'S DEVELOPMENT NEEDS.

18. AN ONGOING CAMPAIGN AGAINST ECONOMIC CRIMES GIVEN IMPETUS BY THE 10TH SESSION OF LCY PRESIDUM IN MAY IS PRODUCING DAILY NEWSPAPER REPORTS OF ECONOMIC MALVERSATIONS MAINLY IN VERY SMALL FIRMS (SO-CALLED GG-GRUPA GRADJANINA). THE EXPOSURE AND PROSECUTION OF THE CRIMINAL ACTIVITIES OF NUMERUS SMALL FIRMS IS PROBABLY TIMED TO SERVE AS A GUIDELINE TO THE ECONOMY THAT NEW LAWS AND REGULATIONS MUST BE OBEYED. IN ADDITION, IT MAY SIGNAL THAT THESE MALL BUSINESS ORGANIZATIONS WILL BE FORCED OUT OF FOREIGN TRADE, COMMERCIAL REPRESENTATIVE, AND INSURANCE SECTORS AND BE RELEGATED TO MANUFACTURING AND SERVICE WORK.

19. IN AGRICULTURAL SECTOR, HEAVY RAINS AND WINDS COMPLICATED WHEAT HARVEST AND CURRENT ESTIMATES ARE FOR 4.8 MILLION TONS -- ABOUT 23 PERCENT LESS THAN LAST YEAR'S RECORD CROP. OFFICIAL STATEMENTS INDICATE THIS, INCOMBINATION WITH RESERVES FROM 1974, WILL BE SUFFICIENT FOR DOMESTIC NEEDS, ALTHOUGH WE HAVE BEEN TOLD THAT SMALL CROP LEADS TO SPECULATION, WHEAT IMPORTS MAY BE POSSIBLE BY END OF YEAR.

20. COMMENT: YUGOSLV SIX MONTH ECONOMIC PERFORMANCE HAS BEEN MIXED WITH NEGATIVE TRENDS MORE PRONOUNCED THAN POSITIVE TRENDS. BALANCE OF PAYMENTS AND INFLATION PROBLEMS HAVE NOT YET CONSTRAINED GROWTH OR EVELOPMENT GOALS BUT POTENTIAL TO DO SO IS NOW IMPELLING SERIOUS EFFORTS TO COME UP WITH EFFECTIVE STABILATION PROGRAM. AFTER OVER A YEAR OF DEBATE WITHOUT MUCH ACTION IT IS EMBASSY'S IMPRESSION YUGOSLVIA'S ECONOMIC LEADERSHIP, AT LEAST AT FEDERAL LEVEL, IS NOW ACTING WITH DETERMINATION. ONE ENCOURAGING SIGN IS THAT SENIOR YUGOSLAV OFFICIALS HAVE BEGUN TO GIVE WEIGHT TO DOMESTIC AS WELL AS FOEIGN CAUSES OF COUNTRY'S ECONOMIC PROBLEM. THIS IS ESPECIALLY TRUE FOR IMPACT OF INFLATION ON COMPETITIVENESS OF YUGOSLAV EXPORTS AND NECESSITY TO INFLUENCE LEVEL AND STRUCTURE OF INVESTMENT SPENDING. FUNDAMENTAL IMPROVEMENT ON TRADE SIDE PROBABLY DEPENDS ON REVIVAL OF DEMAND ON WESTERN EUROPEAN MARKETS. EMBASSY BELIEVES YUGOSLAV ACTION TO PROTECT EXTERNAL LIQUIDITY IS NECESSARY AND TIMELY, BUT WE PREFER TO AWAIT ANNOUNCEMENT OF OPERATING PROCEDURES

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 BELGRA 03933 03 OF 03 050022Z

LINKING IMPORTS TO EXPORTS BEFORE COMMENTING ON LIKELY EFFEC-
TIVENESS OR IMPLICATIONS FOR COMMERCIAL RELATIONS. IN
CONCENTRATING ON BETTER CONTROL OF INVESTMENT SPENDING AND
RESTRAINING GROWTH OF PUBLIC CONSUMPTION, YUGOSLAVIA PROBABLY
HAS IDENTIFIED CORRECTLY IMPORTANT SOURCES OF INFLATION AND
DOMESTIC LILQUIDITY AND NEW MEASURES OFFER PROMISE OF
IMPORVEMENT IN PRICES AND BALANCE OF PAYMENTS. CURRENT
DRIVE AGAINST ECONOMIC CRIMES APPARENTLY REINFORCES MESSAGE
THAT IN THIS PERIOD OF ECONOMIC CHALLENGE, COUNTRY'S NEW
LAWS AND PROCEDURES WILL BE ENFORCED.
SILBERMAN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, ECONOMIC REPORTS, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BELGRA03933
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750269-0116
From: BELGRADE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975075/aaaaaenz.tel
Line Count: 510
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2003 by ShawDG>; APPROVED <22 MAY 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: YUGOSLAV ECONOMIC TREANDS SIX MONTH REVIEW SUMMARY: FOLLOWING IS OVERVIEW OF YUGOSLAV ECONOMIC TRENDS
TAGS: ECON, EFIN, ETRD, EGEN, YO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006